and process control systems, as well as a collection of industrial automation and other high tech product offerings that continue to provide reasonable gross margins.

WHERE THE BIGGEST BUCKS ARE

As the accompanying map shows, executives headquartered in the Middle Atlantic, West South Central and Pacific Coast states report the widest range of salaries. Both the highest high salaries and highest median salaries are reported out of these regions. Concurrently, some of the lowest executive salaries are also in these same areas.

For example, of the 25 executives responding from the West Coast, half pay themselves $50,000 or more, with at least one earning a high of $124,000. At the other end of the spectrum, one executive reports an annual salary of $5,000. Cross-tabulations of completely anonymous responses show this to be a West Coast distributor with annual sales between $21 million and $30 million.

Given the isolated nature of this response, it might come from a distributor who wishes to collect a minimal salary for tax purposes, or it might indicate a response from someone who chose to report base salary only, and not report other forms of compensation such as commissions, bonuses, stock options, or incentives.

Among salespeople, salary highs, lows and medians are more geographically dispersed than they are among executives. Somewhere within the Ohio to Wisconsin corridor, there is one distribution salesperson who claims an annual salary of only $2,500, the lowest of lows in our survey. In that same region, another salesperson reports total compensation of $480,000—the highest of any salary reported.

Again, cross-tabulations reveal this megabucks salary to be earned solely, 100%, through commission. Assuming the response is accurate, this person is a tremendous overachiever, especially considering that he or she sells for a distributor whose annual sales range from $6 million to $10 million. The numbers show that this single respondent earns in commissions an amount that equals between 4.8 and 8% of the entire firm's total sales, an arrangement that is, by far, the most lucrative in our survey.

Another super-achiever sells for a distributor in the Delaware to Florida region which turns between $21 million and $30 million annually. This salesperson reports a base salary of $150,000 and a commission package worth $200,000 for total earnings of $350,000.

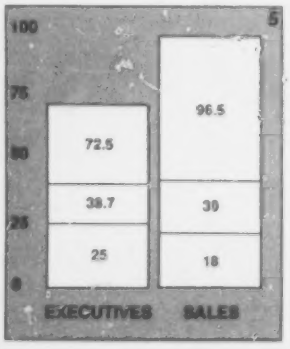
Discounting these extremes, the most generously compensated salespeople work in the East South Central, Mountain States and Pacific Coast regions, each reporting median salaries around $39,000. Within these groups, individual highs range from $86,500 to $96,500 annually.

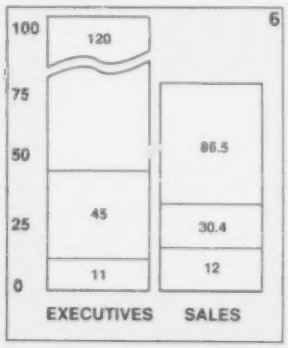
To put these highest numbers in perspective, it must be noted that while 21% of all distribution executives report a salary of $70,000 or higher, only 7% of all salespeople fall into that same bracket.

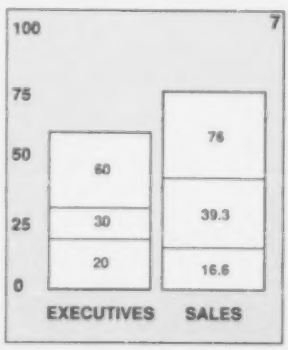
SALARY BY SALES VOLUME

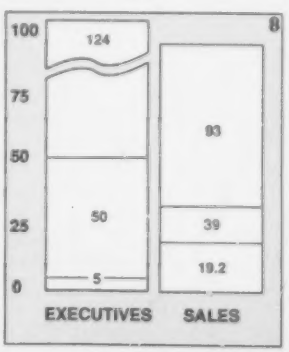
High
Median
Low
($ thousands)

Annual Sales	Executives	Sales
$1-$5 Million	100 / 40 / 6	140 / 33 / 2.5
$6-$10 Million	125 / 60 / 18	480 / 35.5 / 20
$11-$20 Million	120 / 33 / 16.32	90 / 40 / 18
$21-$30 Million	125 / 45 / 5	350 / 40 / 19.6
$31-$40 Million	64 / 45 / 35	72 / 35 / 24.5
$41-$50 Million	11 / 11 / 11	73 / 41 / 20.2
$51-$75 Million	32.4 / 32.4 / 32.4	48 / 30 / 26
Over $75 Million	110 / 65 / 60	75 / 44 / 22









HOW THE INDUSTRY PAYS ITSELF

Fifty percent of all executives who responded to our survey report receiving a bonus that is a percentage of their base compensation. The largest group within this category, 24.3% of the respondents, identifies the bonus as ranging between 11 and 20% of the base salary. Twenty-one percent report the bonus to be more than 40% of the base, with 5.5% claiming a bonus greater than 100% of the base component.

Fewer salespeople receive bonuses, with 40% of the survey's participants claiming bonuses ranging from 1 to 67% of their total compensation packages. The most popular bonus level is 10%, a level cited by 11% of the sales force. No other specific percentage garners more than 3% of all sales staff mentions.

Among distribution executives, profit sharing and bonuses are equally popular ways of increasing total compensation. Again, 50% of executives surveyed take a share of the profits in a variety of ways. One person reports taking 30% of gross profits, while another takes 25% of the gross that is in excess of $200,000, and a third receives 10% of the adjusted net profit. Two executives report that their "subjective judgment" determines what percentage they will receive.

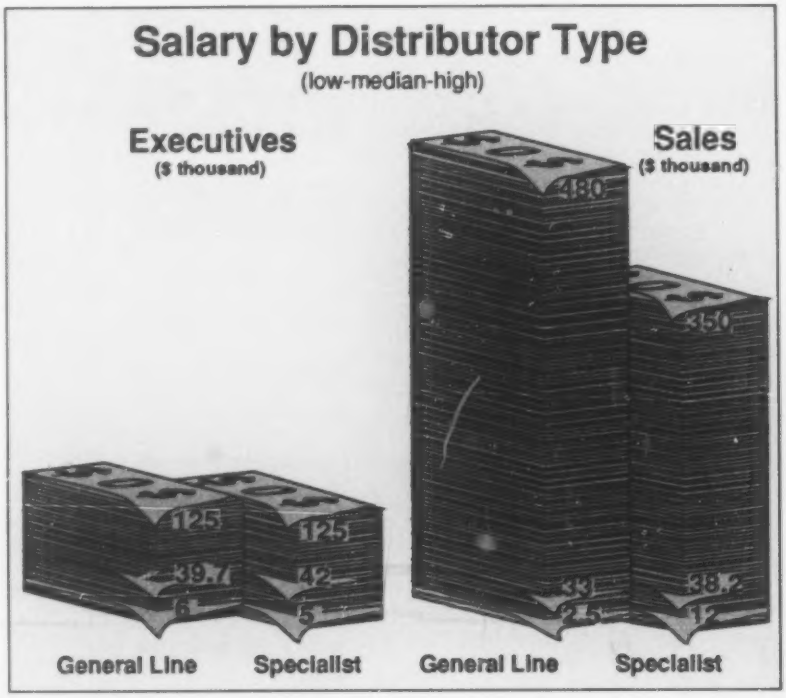
For their part, 26.2% of the salespeople who receive a bonus report a direct relationship between profits and the size of that bonus. Others acknowledge the impact of "management and ownership moods" and "tenure" as decisive factors in determining profit sharing.

Further, nearly 41% of the salespeople report that their commissions are a function of profits. While 22.9% of sales respondents describe commissions as an average percentage of sales, 40.9% report variable commissions determined by "percentage of gross profit," "percentage of gross profit over draw," "percentage increase of gross profit," and/or "graduated scale based on gross profit."

The vast majority of salespeople—81.1%—get credit for commissions when orders are invoiced. Far fewer—17.1%—earn commission credit when invoices are paid, and only 1.8% receive credit when orders are placed. Similarly, salespeople say that 71.6% of all commissions are paid monthly.

When it comes to commissions, industrial distributors distinguish between outside and inside salespeople. According to our survey, only 8.8% of all inside salespeople "share any form of compensation" with the outside sales staff. With regard to telephone sales, 83.9% of the inside salespeople responding report that they do not collect a commission on their work, and of the 16.1% who do receive commissions on telephone sales, there is a nearly 50-50 split between

Salary profiles at a glance



$ $ $ at-a-glance

President
Mid-Atlantic
Electrical specialty
$21-$30 million volume
$125,000 salary

Inside salesperson
South Atlantic
Power transmission specialty
$11-$20 million volume
$24,000 salary

President
Mid Atlantic
General line
$6-$10 million volume
$125,000 salary

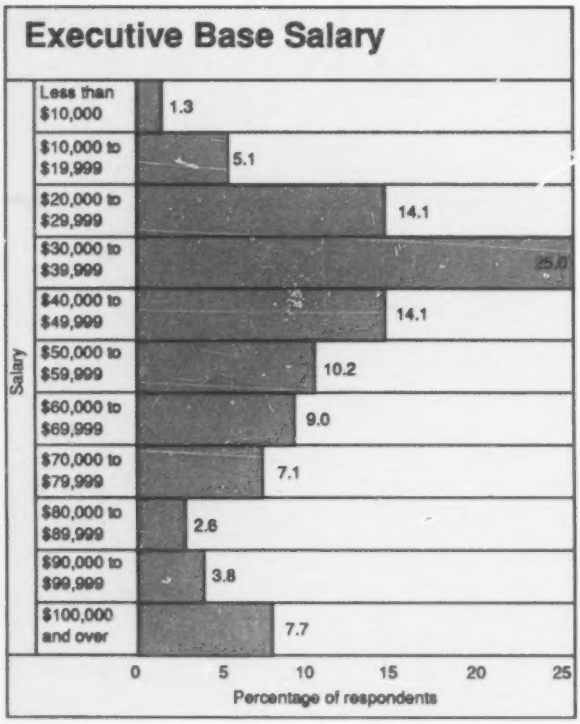
Outside salesperson
East N. Central
General line
$1-$5 million volume
$60,000 salary

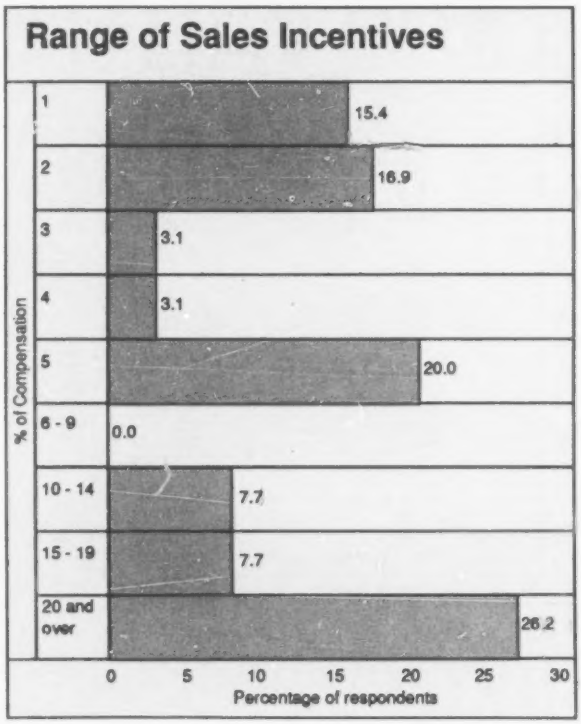
Exec VP/COO
Mid-Atlantic
Welding specialty
$6-$10 million volume
$94,000 salary

Inside salesperson
South Atlantic
General line
$21-$30 million volume
$30,000 salary

President
Pacific Coast
Fluid power specialty
$6-$10 million volume
$90,000 salary

Outside salesperson
East S. Central
General line
$1-$5 million volume
$42,000 salary





those who get a percentage of volume and those who get a cut of the profit.

HANDING OUT THE PERKS

Medical insurance, life insurance and cars are the three most dominant areas where distribution executives earn their perquisites. The company pays medical premiums for 91.6% of executives surveyed, with 68.6% having all their medical insurance payments covered and 31.4% benefitting from partial premium coverage.

About four-fifths (79%) of the executives have their life insurance premiums paid for, with 60.6% of these receiving full payment and 39.4% having only a portion of their premiums picked up by the firm.

Transportation perks abound for executives, as 73.1% drive company cars and 73.7% assign auto expenses to the firm. First-class air travel is available to 6.0% of executive respondents, while 4.8% also have access to a company-owned aircraft, boat or limousine.

The fact that 18.5% of responding salespeople report that their salaries come from commissions only or a commission-plus-bonus package seems to influence the perks available to the sales end of distribution. For example, according to the survey results, only 13.3% of distributor salespeople receive free medical or health insurance. No other single benefit is mentioned by more than 2.7% of the respondents, and this figure refers to car allowances and access to company-owned vehicles.

Three salespeople report club membership as a perk, but comments such as "vacation without pay," "work on an account basis" and "outside sales calls as needed" testify to the private contractor-type relationships that many salespeople in our survey have with their employers.

On the other hand, salespeople report being motivated by a variety of incentives such as "a trip to Switzerland," "Celtics' tickets" and "sales contests."

Imprecision regarding perks and incentives for salespeople results, most likely, from a survey strategy that asked respondents to identify items or policies that apply only to the sales staff as separate from all other employees. In future surveys, less restrictive questions should generate more accurate and complete data concerning sales motivators. □

Spiral-bound copies of INDUSTRIAL DISTRIBUTION's *60-page Salary Survey are available at a cost of $150.00 each, pre-paid. Write:* INDUSTRIAL DISTRIBUTION, *Cahners Publishing Co., 275 Washington St., Newton, MA 02158-1630, Attn: Susan Lawler, or call (617) 964-3030.*

Survey methodology

This survey was designed to identify the methods and types of compensation received by distributor executives and inside and outside salespeople. The total sample of 1,994 used for this study was randomly selected from recipients of INDUSTRIAL DISTRIBUTION, with 997 recipients having management titles and an equal number having sales titles.

A cover letter and questionnaire were mailed to each recipient on Oct. 20, 1987. A quarter coin incentive was used on questionnaires mailed to recipients having sales titles.

A total of 490 useable questionnaires were returned, 167 from executives and 323 from salespeople.

THE Construction MARKET

Increases in both commercial and industrial construction outlays this year suggest that business is on a roll and will start pouring more dollars into projects that will benefit the distributor.

Distributors catering to the construction industry should enjoy improved sales prospects during 1988.

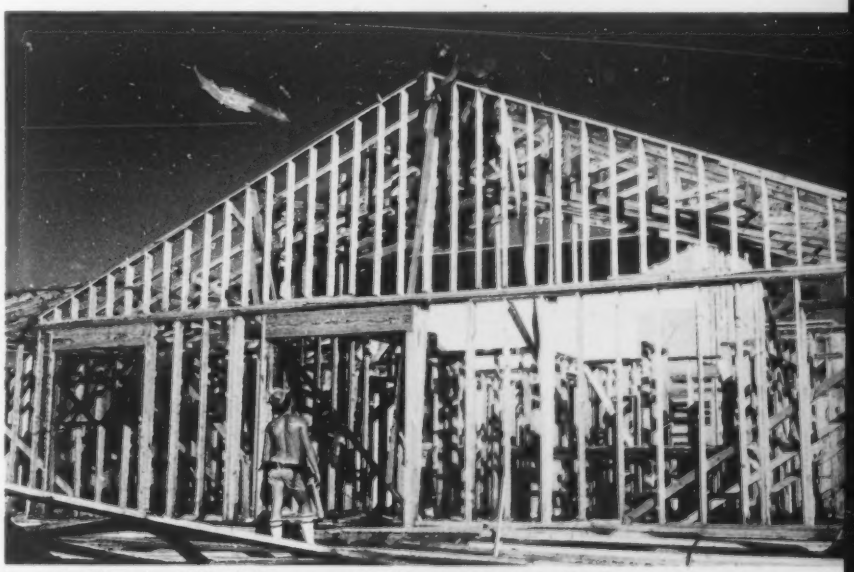
Power tools, hand tools, fasteners, and a myriad of related products will be in greater demand, according to recent statistics from the Cahners Building & Construction Market Forecast.

Much of the overall rise from 1987's $409.9 billion in construction spending to 1988's projected $438.7 billion will come from significant growth in residential building (from 1987's $209.4 billion to $233.2 billion in 1988). There will also be slight boosts in commercial, industrial and institutional projects ($113.3 billion to $118.4 billion), while non-building—including highway, street, and water and sewer projects—will virtually stay the same: $87.2 billion vs. $87.1 billion.

Since almost every construction project requires initial start-up assortments of tools plus replacements (portable equipment of almost every variety tends to "walk" off job sites), the projections should translate into a good business year for involved distributors.

Cahners' forecast is corroborated by figures of the Associated Equipment Distributors (AED), which also anticipates steady but unspectacular growth in 1988.

According to just-released figures—and nearly 2 months after Wall Street's "Black Monday"—AED looks for an average 5.2% increase in gross sales for the first half of 1988. This increase should be spread virtually equally across the board with heavy equipment dealers garnering a 5% average growth in sales, general equipment distributors earning a 5.3% boost and light equipment shops benefiting from a 5.1% sales gain.

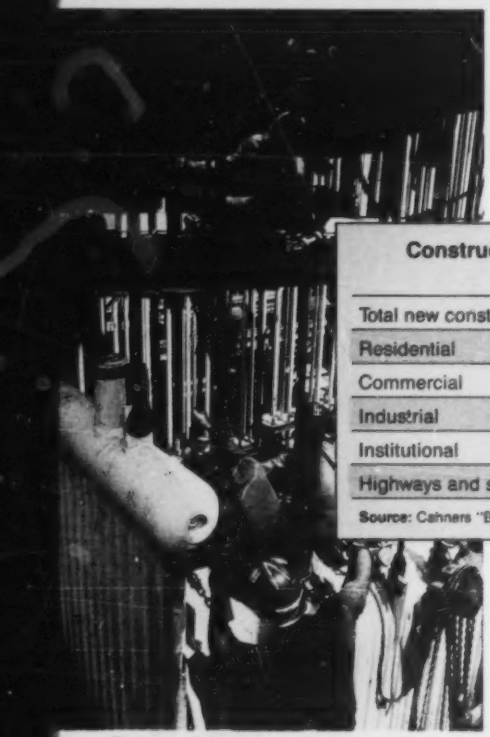


From the first shovelful of dirt, a construction project needs distributor-sold products.

However, highlights of the report show that within the seeming similarity of statistics, there are marked geographic differences to be considered.

For instance, in the Northeast, optimism reigns vis-a-vis general construction plus sewer and water projects. Likewise, in the mid-Atlantic and Southeast, commercial construction plus highway and water and sewer projects are expected to be the leading markets.

Similar non-building strengths are



Commercial construction, in particular, represents opportunities to sell large volumes of specialty equipment.

Source: Cahners "Building & Construction" market forecast

Construction Spending (in billions of $)

	1986	1987	1988	1989
Total new construction	388.9	409.9	438.7	432.2
Residential	187.1	209.4	233.2	224.4
Commercial	64.2	59.6	62.2	66.5
Industrial	13.7	12.4	13.7	15.1
Institutional	36.7	41.3	42.5	40.7
Highways and streets	23.4	23.7	24.1	23.0

Source: Cahners "Building & Construction" Market Forecast

anticipated in the Midwest along with strong emphasis on residential building. And, sewer and water projects along with highway work are projected to keep registers ringing in the upper Midwest and Plains states. And, in the far West, an increase in residential housing starts is expected to boost construction spending.

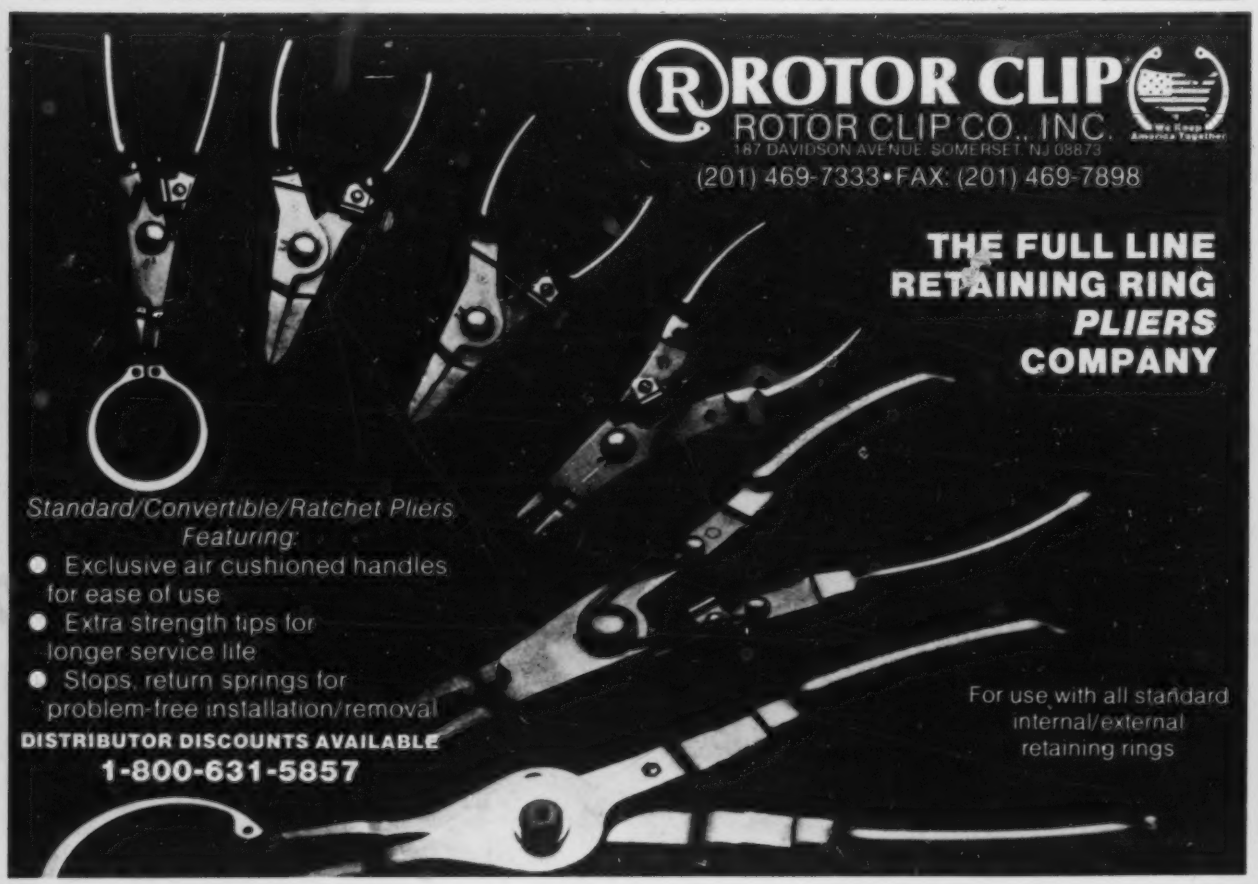
Furthermore, in areas where most construction is static or in a decline, highways and sewer and water projects are providing activity among construction interests. Sectors reflecting this situation include the mid-South, portions of the Pacific Northwest, Texas, and Oklahoma.

Of course, having a generally positive market in which to sell is only part of the profitability challenge. Today, as always, maintaining the proper merchandise mix and offering appropriate levels of customer service are also critical to success.

For example, according to a recent survey from the Specialty Tools & Fasteners Distributors Assn. (STAFDA), the construction industry remains the prime sales focus of its members. Indeed, while all participating firms derived 13% of sales volume from building and residential contractors, the highest profit concerns earned 13.3%.

Likewise, plumbing contractors produced 8.7% of sales for all STAFDA firms surveyed but 10% for those with the strongest bottom line. And roofing, sheet metal and air conditioning contractors accounted for 6.3% of sales for all reporting firms but 7% for the top profit shops.

In one intriguing development, while electrical contractors accounted for the same 9% of sales in all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firms as the most profitable concerns, and masonry contracting (3.5% vs. 3.3%) and general contractors (16.2% vs. 16.1%) were almost equally constant, there was one truly notable differential. While industrial customers accounted for 17.5% of sales for all survey-reporting companies, that group contributed just 11.5% to those distributorships with the largest margin of profit.

Interestingly, the STAFDA survey shows a slightly enhanced concentration upon power tools in the comparative product mixes between all those reporting and the most profitable firms.

The high-profit firms paced their stock with 19.8% of sales accounted for by portable tools and accessories vs. 19.2% for all firms; 11.9% of sales from power nailers/staplers and accessories vs. 10%; 7.1% vs. 6% for powder-actuated tools and accessories; and 5.9% vs. 5.4% for sales of hand tools. The only downside tool differentials were 2.7% for stationary tool sales by all firms reporting vs. 1.5% for the most profitable; and 3.2% vs. 2.5% of sales generated by air/hydraulic tools.

What all this means is that STAFDA members have every reason to assume that more profitable quarters lie ahead. The second quarter of 1987 marked the 19th consecutive quarter in which STAFDA distributors posted sales gains over the previous year's similar time frame. However, sales were reported down in the South Central and Rocky Mountain regions, both of which are tied to energy supplies.

But, in general, prospects are good, both today and into the future. And, according to a study from Frost & Sullivan, Inc., the decade-embracing years of 1980 and 1990 will show a virtual doubling of sales of power tools to the construction industry. This will include rises in the electrical ($218 million to $479 million), pneumatic ($29 million to $55 million) and powder-actuated tools ($14 million to $29 million) sectors.

Therefore, even while acknowledging the quixotic nature of the building business, these figures seem to anticipate a strong year for distributors who sell to America's construction industry. □

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The Best Sellers

The construction market has been called everything from a hornet's nest to a gold mine. It can be either depending on how you define your local economy.

How do you build an inventory of best sellers? It depends on how well you've gauged your market and how well you're tapping its potential. The stocking process is difficult but it can be well worth the effort when it generates a long list of best sellers.

You've got to ask yourself a hundred and one questions, these among others:

Are you in an essentially industrial marketplace or does it have more of a downtown commercial character? Are they building new homes in and around your territory or are you in another industrial or oil-dependent Houston, the new foreclosure center of America? Is new industry moving in? Is local industry revving up again? If you're close enough to a well-traveled road or highway, do you want to attract passers-by with a huge sign?

Are you prepared to invest in an ongoing, pinpointed, power-packed promotional campaign of advertising, direct mail, catalogs, and telemarketing? Do you know who your customers are, where the greatest sales potential exists and where it will be six months from now? Do you keep an eye on what the experts are saying about the future as it relates to construction? Are your salespeople properly trained and kept informed? Are you prepared with all of the value-added services that will give you an edge over your most

Where the $$$ are

% Of Total Annual Sales

Sales by Product Category	For All Responding Firms	For Most Profitable 25% of Respondents	For Firms With Total Annual Sales of: $1-$2 million	$2-$4 million	over $4 million
Adhesives	1.7%	1.0%	1.6%	1.5%	1.7%
Air/Hydraulic Tools	3.2	2.5	2.6	3.8	3.5
Anchors	7.7	7.8	7.9	8.2	5.9
Cords/Cables	1.6	1.3	1.5	1.8	1.5
Diamond Products	2.8	2.0	2.6	4.4	1.8
Gas Engine Equipment	2.2	1.6	2.1	2.2	2.0
Hand Tools	5.4	5.9	8.8	5.1	4.5
Hangers/Struts/Channel	2.4	1.7	2.5	2.6	3.9
Lifting Equipment	1.1	1.0	0.8	0.8	2.6
Lubes & Chemicals	0.8	0.8	0.5	1.4	1.0
Pipe Tools	2.3	4.3	1.3	3.4	3.0
Portable Electric Tools	19.2	19.8	21.3	18.2	15.9
Powder-Actuated Tools	6.0	7.1	6.0	6.1	3.5
Power Nailers/Staplers	10.0	11.9	9.6	8.5	8.8
Safety Equipment	1.3	0.9	1.0	1.6	1.7
Scaffolds & Ladders	3.0	2.0	2.5	2.0	3.3
Stationary Tools	2.7	1.5	2.1	2.3	1.6
Threaded Fasteners	9.5	14.1	10.4	7.4	12.0
Toolboxes/Bins	2.0	2.3	2.2	1.5	2.6
Other	15.1	10.5	12.7	17.2	19.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Specialty Tools & Fasteners Distributors Assn.

Where the $$$ are

% Of Total Annual Sales

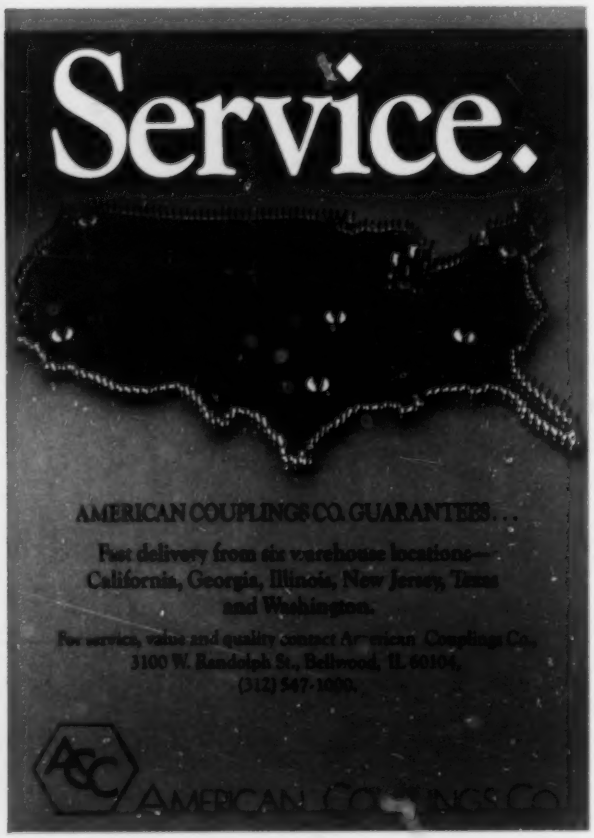
Sales by Customer Type	For All Responding Firms	For Most Profitable 25% of Respondents	For Firms With Total Annual Sales of: $1-$2 million	$2-$4 million	over $4 million
Building/Residential Contractors	13.0%	13.3%	12.8%	14.5%	7.7%
Drywall Contractors	5.0	4.1	7.8	4.1	5.3
Electrical Contractors	9.0	9.0	7.4	12.0	11.7
General Contractors	16.2	16.1	18.2	14.5	15.7
Government Accounts	3.3	2.2	3.2	3.3	3.5
Industrial Customers	17.5	11.5	13.1	16.3	20.0
Masonry Contractors	3.5	3.3	4.1	3.5	2.8
Plumbing Contractors	8.7	10.0	8.4	9.3	8.8
Resale Accounts	6.7	7.9	8.5	6.3	7.1
Roofing, Sheet Metal	6.3	7.0	6.2	6.2	4.7
Service Trades	3.1	5.3	3.4	3.1	2.5
Utilities	2.8	2.4	3.1	2.7	3.7
Other	4.9	7.9	3.8	4.2	6.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Specialty Tools & Fasteners Distributors Assn.

threatening competition?

Best sellers are born, not made. The informed distributor salesperson supported by ongoing factory and headquarters' presell promotion can weave an image of superiority for the product by a display of great pride in the product (and the brand, if warranted). This can be done by offering proof of its performance and by listing guarantees such as emergency services, repair or replacement, and others.

One note of warning. Take special care when overstocking on one or more best sellers at the request of a single contractor who assures you he will deplete the stock over the life of the project. While this can be profitable, it can also prove costly. Even the best-planned construction projects are full of variables, including the possibility of a midstream changeover from one product to another. □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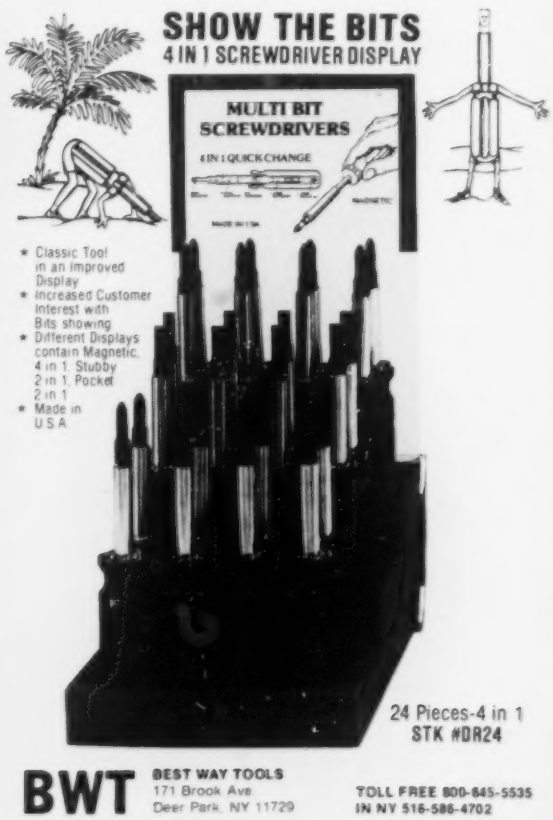
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BUSINESS REPORT

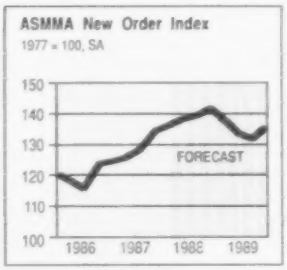
BY WILLIAM C. WOOD

Strong expansion continues

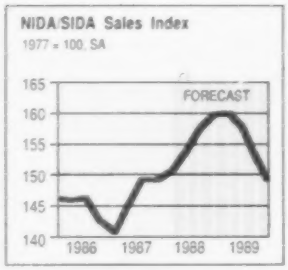
Growth in heavy industry predicted

According to recently released GNP figures, the U.S. economy continued to expand at a strong rate after the stock market crash in October. The 4.2% fourth quarter growth rate was led by an increase in inventories, while also showing improvements in the trade situation and business investment.

Although these numbers represent a strong finish to 1987, many economists are concerned about how this strength will affect growth in 1988. The good news is that we are entering '88 with a strong economy, a slowing trade deficit and increased capital spending.



Data source: ASMMA
Forecast source: Cahners Economics



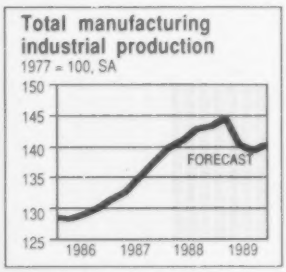
Data source: NIDA
Forecast source: Cahners Economics

The bad news is that consumer spending was down, and production of some goods will have to be cut back in order to work off excess inventories.

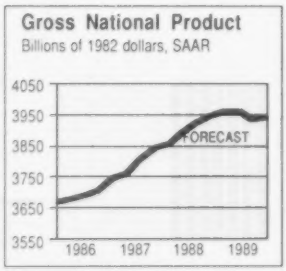
Despite these concerns about inventories and the aggregate growth rate, the expansion in heavy industry will continue to proceed at a healthy clip. The build-up in inventories for manufacturers and distributors in this sector is in response to the boom in exports and anticipated increases in capital spending. These factors will continue to provide market growth for at least the next six months.

This month's INDUSTRIAL DISTRIBUTION survey indicates that 33% of the distributors who responded plan to increase inventories in the next 6 months. This is up from 24% last month. The regions that are showing the largest number of expected inventory increases are the heavy industrial areas: Mid-Atlantic, North Central and South Central.

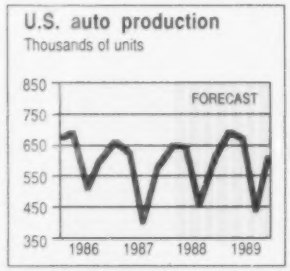
Although excess inventories and weakening markets will keep the auto manufacturers and other producers of consumer durable goods from experiencing substantial growth in 1988, manufacturers of machinery and equipment will continue to have expanding markets, which should provide enough momentum to keep the aggregate economy expanding. □



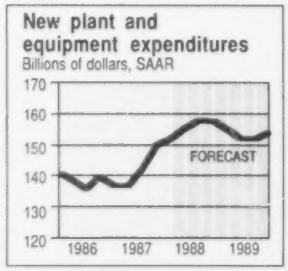
Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: Commerce Dept.
Forecast source: Cahners Economics



Data source: Commerce Dept.
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics

SALES BY REGIONS (% change)	SALES (%) first 11 mos. '87 vs. first 11 mos. '86			RECEIVABLES (# of days) Nov. '87 vs. Nov. '86						INVENTORIES		
	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Increase Levels	Remain The Same	Decrease Levels
NEW ENGLAND CT, RI, MA, NH, VT, ME	13	17	7	38	36	44	35	38	44	22	56	22
MID-ADLANTIC NY, NJ, PA	2	0	–23	43	51	12	47	49	15	56	33	11
SOUTHEAST DE, DC, MD, VA, WV, GA, NC, SC, FL	4	8	–2	54	44	36	44	44	37	12	50	38
NORTH CENTRAL OH, IL, IN, MI, WI	6	–2	1	36	46	50	37	45	50	45	39	16
SOUTH CENTRAL AL, MS, KY, TN	79	—	0	60	0	31	90	0	32	60	20	20
MIDWEST MN, ND, DS, IA, NE, KS, MO	–11	16	10	39	49	44	43	58	45	25	75	0
SOUTHWEST AR, LA, OK, TX	—	–7	—	—	41	0	—	39	0	0	62	38
MOUNTAIN NM, AZ, CO, UT, NV, WY, MT, ID	–3	5	4	34	42	35	46	41	32	0	67	33
PACIFIC CA, OR, WA	23	9	14	32	43	45	33	45	47	40	40	20
U.S. TOTALS	11	12	8	40	44	41	45	44	41	33	49	18

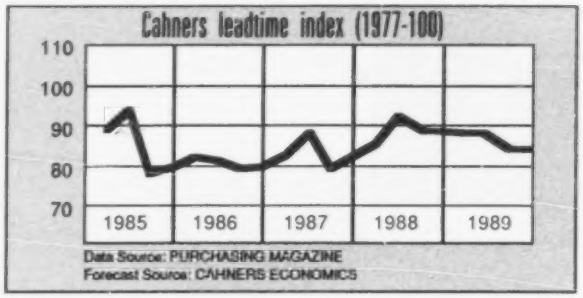
SUPPLY OUTLOOK

BY WILLIAM C. WOOD

Growth will peak this summer

Muted trends mean timing will be critical

Peak growth rates for the Cahners Economics Early Warning Indicators were reached 18 to 24 months ago. According to conventional business cycle analysis, this means the peak growth rates for heavy industrial products will begin to be reached now through this summer.

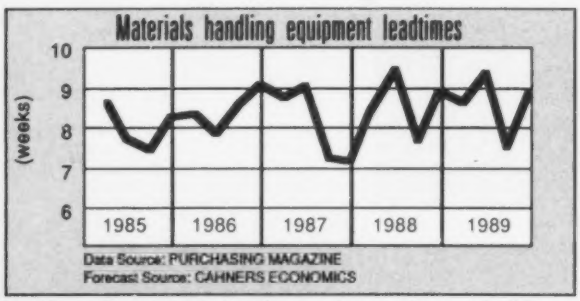


Many industrial products are very cyclical—machinery and equipment are two good examples—and despite all the skepticism surrounding the current economic conditions, a strong upturn is in the cards.

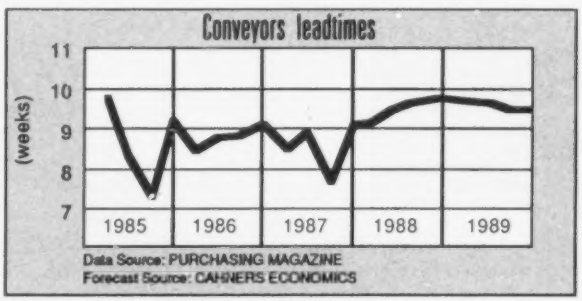
One thing to be aware of with this current upswing in the business cycle is that the growth rates will not be as large as they were during previous peaks. Because of this trend of muted cycles, timing the peaks does not leave much room for error. Once the peaks are reached this summer, growth rates will slow through the end of the year, possibly into the first quarter of 1989, and then the economy will flatten out. This means that now is the time to gear up for the last spurt of growth in this expansion.

This muted business also means the economy never "overheated," which kept prices for everything but petroleum products very stable. The inflation outlook for 1988 is for steady but moderate increases in prices. A weaker dollar will push prices for imported goods higher and will give domestic producers more room for price increases; however, these factors will be partially mitigated by a slowdown in consumer spending and increasing competition.

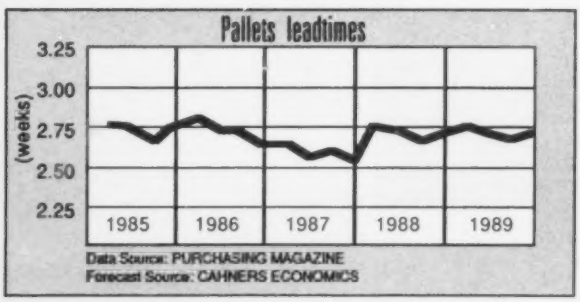
Energy prices, which figured prominently in last year's 3.6% rise in the Consumer Price Index, should be less volatile and increases will be smaller. The Producer Price Index for finished goods rose only 2.1% last year and will rise a moderate 3.0% in 1988. This moderate rise in producer prices will result in an increase of no more than 4.0% in consumer prices in 1988. □



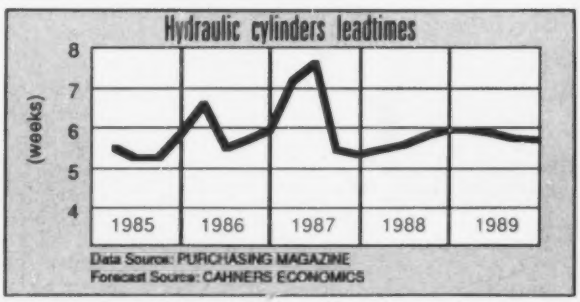
Leadtimes for materials handling equipment dropped in '87 to an average of just above 8 weeks. In '88 they will rise to an average of 8.6 weeks.



After averaging 8.5 weeks in '87, conveyor leadtimes will stay above 9 weeks throughout '88.

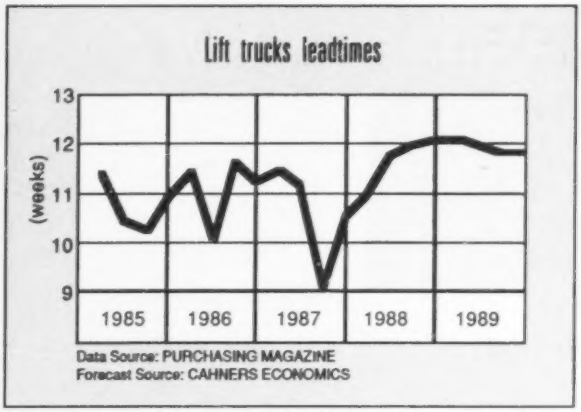


Pallet leadtimes will stretch out slightly in '88; expect an average of 2.7 weeks.

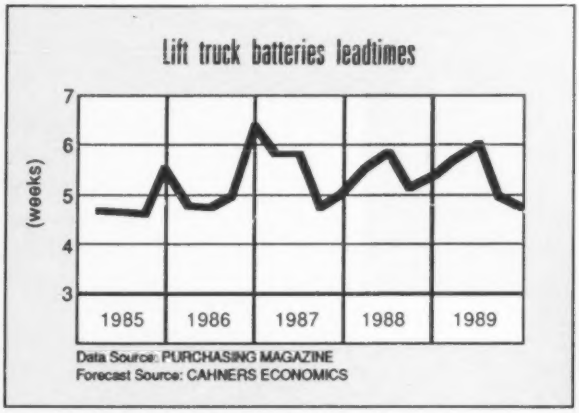


Leadtimes for hydraulic cylinders will be close to 6 weeks for all of 1988.

SUPPLY OUTLOOK



Increased demand for lift trucks will result in lags of 11 to 12 weeks for the remainder of the year.



Lift truck batteries leadtimes will follow the upward trend of lift trucks and will stretch out to average 5.4 weeks in '88.

Capital spending increases aid materials handling

This year will be one of strong recovery for manufacturers in the materials handling industry due to an anticipated 7.4% increase in capital spending on producers' durable equipment. Increases in industrial production will result in rising usage and demand for traditional products like bins, hand trucks and conveyors, but the majority of the growth will be in "systems" for factory and warehouse automation. The necessity to improve efficiency and competitiveness has resulted in advancements in the technology of automation for entire materials handling processes. □

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